



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

November 23, 2011

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From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE – LEGISLATIVE ANALYST'S OFFICE FISCAL OUTLOOK

On November 16, 2011, the Legislative Analyst's Office (LAO) released a report titled the "*California's Fiscal Outlook: The 2012-13 Budget*" which provides projections for State General Fund revenues and expenditures through FY 2016-17.

The Legislative Analyst's Office projects that State General Fund revenues will be \$3.7 billion below the \$4.0 billion in revenue assumptions included in the FY 2011-12 State Budget Act, which requires the Department of Finance to make a determination, by December 15, 2011, as to whether the \$4.0 billion revenue benchmark will be reached. If projections fall short, the Department of Finance is authorized to make up to \$2.5 billion in triggered reductions, implemented in two tiers beginning in January 2012. If the LAO's projected shortfall is reflected in the revenue projections generated by the Department of Finance in mid-December, the LAO assumes that \$2.0 billion in trigger cuts will be enacted.

As reported in the October 11, 2011 Sacramento Update, the State Budget triggered reductions would result in the loss of \$380,000 to the County. In addition, the trigger cuts include a 20.0 percent across-the-board reduction to In-Home Supportive Services (IHSS), which may result in a loss of millions of dollars to the Department of Health Services for health care coverage for IHSS providers. We are working with affected departments to determine the actual impact to the County.

Assuming the Legislative Analyst's Office's revenue estimates hold true, the LAO projects that there will be a remaining State Budget shortfall of \$3.0 billion through the end of FY 2011-12. This shortfall reflects the net effect of the lower revenue forecast, the enactment of the trigger cuts, and \$1.2 billion in other budget actions that the LAO

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assumes will not be achieved, including: 1) higher Medi-Cal costs due to delayed Federal approval for cost-cutting measures; 2) lower projected savings from the shift of redevelopment funds; and 3) smaller reductions in State General Fund departmental costs. The LAO further projects a shortfall of \$9.8 billion in FY 2012-13 due to several factors including: 1) \$5.6 billion in increased K-12 education costs (Proposition 98); 2) \$2.0 billion from the repayment of the Proposition 1A of 2004 property tax loan from counties used to balance the State Budget in 2009; and 3) \$1.0 billion in loan payments to various special funds. As a result, the Administration and the Legislature will need to address a \$12.8 billion deficit through FY 2012-13.

The Legislative Analyst's Office's out-year budget projections show shortfalls of \$8.0 billion and \$9.0 billion in FY 2013-14 and FY 2014-15, gradually declining to about \$5.0 billion by FY 2016-17. While these shortfalls are lower than projected in last year's fiscal outlook, the LAO indicates that few options remain for the State to address these continuing deficits, and revenue increases and/or deeper cuts in services will be necessary to balance future budgets.

The Legislative Analyst's Office's fiscal outlook did not consider the potential impact of any future State ballot measures to raise revenue, the outcome of pending litigation involving the State, or measures that may be proposed by President Obama or the U.S. Congress to address the \$15.0 trillion Federal budget deficit. However, the LAO states that the recovery of the U.S. and California economies has been slower than expected and predicts that economic growth will continue to progress slowly. The LAO projects that California's unemployment rate will remain above 10.0 percent through mid-2014 and will likely remain above 8.0 percent through at least the end of 2017.

Finally, the LAO indicates that given the ongoing State Budget deficits and resulting focus of the Legislature and the Administration on solving short-term budget problems on a year-to-year basis; larger and longer-term State fiscal issues, such as unfunded pension liabilities, retiree health costs and accumulated budgetary obligations would remain unaddressed. The issues referenced above will have a significant impact on the State Budget in the coming years.

The Legislative Analyst's Office complete report is available at: www.lao.ca.gov.

We will continue to keep you advised.

WTF:RA
MR:KA:sb

c: All Department Heads
Legislative Strategist